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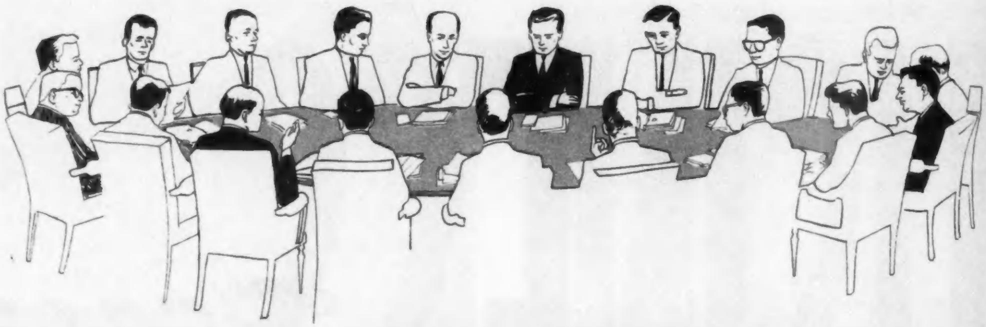
USINESS REVIEW

Monetary Policy—How Decisions Are Made

The Business Outlook—From a Returning Vacationist

FEDERAL RESERVE BANK OF PHILADELPHIA



MONETARY POLICY—HOW DECISIONS ARE MADE

Decision-making is a vital and integral part of the process of using Federal Reserve tools to achieve the goals of monetary policy. Federal Reserve actions are directed toward a threefold objective: (a) to help keep the purchasing power of money stable; (b) to help maintain a reasonably full use of resources by smoothing out the upward and downward swings in total production, employment, and income; and (c) to foster sustained economic growth. In short, Federal Reserve actions are directed toward helping to keep total demand in balance with capacity to supply goods and services at a stable level of prices, and with a reasonably full use of labor and other resources. For monetary policy to contribute to the achievement of these goals calls for restrictive action when credit expansion threatens to cause total demand to outrun productive capacity, and for an easy money policy when a deficiency in total demand threatens a decrease in production, employment, and income. Although these are the goals toward which Federal Reserve actions are directed, System officials recognize that they cannot be achieved by monetary policy alone.

There is no procedure or list of ingredients that in themselves will lead to wise decisions. This is especially true in something as complex as the formulation of monetary policy in which human judgment necessarily plays an important part. Nevertheless there are certain basic factors that contribute to sound policy decisions. One essential requirement is competent, experienced policymakers. A second is that the policymakers have all of the data and other information relevant to the question up for decision. Third, the procedure followed should encourage a free and frank exchange of views in order that all aspects of the question will be explored.

This article deals with these main aspects of how monetary policy decisions are made. It is directed principally toward the Federal Open

Market Committee, including preparations for the meetings of the Committee and the procedure followed in arriving at decisions.

WHO IS RESPONSIBLE FOR DECISIONS?

Before going into the process of decision-making, we should take a look at the distribution of responsibility for policy formulation. There is no single group in the Federal Reserve System that is responsible for all policy decisions. The Federal Reserve Act distributes the responsibility for monetary policy decisions among the Board of Governors, the Federal Open Market Committee, and the Reserve Banks.

Board of Governors

At the head of the Federal Reserve System is the Board of Governors of seven members. The members of the Board are appointed by the President, subject to confirmation by the Senate, for a term of 14 years. The Board has general supervision over the policies and operations of the Federal Reserve System. Statutory authority to change the reserve requirements of member banks and to change the margin requirement for stock market credit is vested in the Board.

Changes in the discount rate, although usually initiated by the Reserve Banks, are subject to review and determination by the Board of Governors. The Attorney General has ruled that under the Act the Board has authority to initiate changes in the discount rate. The Board of Governors also constitutes a majority of the members of the Federal Open Market Committee which has supervision over open market operations.

Federal Open Market Committee

The Federal Open Market Committee has sole authority over open market operations—primarily the purchase and sale of Government securities in the open market. This is an important policymaking body because open market operations is the tool most commonly used to influence bank reserves and the availability of credit.

The Federal Open Market Committee consists of the seven members of the Board of Governors and five of the presidents of the Reserve Banks. The president of the Federal Reserve Bank of New York is a permanent member. The other four president members are elected annually on a rotation basis so that the president of each of the other 11 Reserve Banks serves as an official member of the Open Market Committee every two or three years. The Committee selects its chairman and vice chairman. Traditionally, the Chairman of the Board of Governors is elected chairman of the Committee and the president of the Federal Reserve Bank of New York is elected vice chairman.

The Open Market Committee selects one of the Reserve Banks—the Federal Reserve Bank of New York—to act as its agent in conducting open market operations. The Fed of New York in turn designates one of its senior officers as Manager of the Open Market Account, subject to the approval of the Open Market Committee. The Manager has immediate supervision over all transactions for the Open Market Account.

The Reserve Banks

Under the Federal Reserve Act, responsibility for establishing the discount rate is placed in the Reserve Banks but subject to the review and determination of the Board of Governors. The Act provides that each Reserve Bank shall act on the discount rate at least every 14 days. Thus establishment of the discount rate is a joint responsibility between the Reserve Bank and the

Board, final legal authority being vested in the latter.

Decentralization but coordination

The Federal Reserve Act provides for substantial decentralization of responsibility for monetary policy decisions. In fact, if one's views were based solely on looking at an organization chart, he might well conclude that there is so much decentralization that coordinated use of the tools is made difficult, if not impossible. Such is not the case, however. Authority vested in the Board of Governors together with procedures that have been developed for decision-making provide for a coordinated use of the tools of monetary policy.

Federal Open Market Committee meetings have become a forum for policy discussion. Discussion at the meetings is not limited to open market operations, but ranges over the entire field of monetary policy—whether current policy is appropriate and if not, which tools might be used to bring about the desired change. These meetings are usually held every three weeks in Washington and are attended by all of the Reserve Bank presidents, even though only the five who are official members of the Committee are entitled to vote.

WHO ARE THE POLICYMAKERS?

First let us take a look at the policymakers themselves. Journalists have sometimes referred to the Federal Open Market Committee as the "Supreme Court of Finance" and the "twelve mighty men of finance." Actually, as pointed out above, all of the presidents of the Reserve Banks usually attend the meeting of the Open Market Committee and participate in its deliberations. So let's have a look at the qualifications of these 19 men—seven members of the Board and 12 presidents of the Reserve Banks—who participate in the discussions of the Open Market Committee.

Education

Formal education is not a reliable indication of the knowledge and understanding of men of many years of experience. Self-education and the wisdom one acquires on the job may be far more important. Nevertheless it may be of interest to see how our policymakers measure up in this respect.

Practically all of them have degrees from a college or university. Nearly two-thirds of these men have done some graduate work, nine have the master's degree, and five have the doctor's degree. From the standpoint of formal education, this "Supreme Court of Finance" is well-qualified for decision-making.

Experience

Of even greater significance, perhaps, than formal education is the training acquired through experience. Our policymakers embrace a wide variety of experience before entering the Federal Reserve System. For example, sixteen had some experience in at least one phase of finance such as a commercial bank, savings bank, insurance, or a securities or commodity exchange; six taught in a college or university; three had extended experience in agriculture or industry; three were practicing lawyers; and two did public accounting work. It is significant that the policymaking group brings together men with experience in many different types of economic activity.

Experience in the Federal Reserve System is also important. Those who formulate monetary policy should be thoroughly familiar with the responsibilities and the operations of a central

bank. Experience in the Federal Reserve System, of course, varies rather widely among the individual members of the policymaking group. The number of years of experience of these 19 men in the Federal Reserve ranges from a high of 44 to a low of four. The average number of years' experience is 18. Thus our policymakers are men of experience—experience covering a variety of activities in other fields and extended experience in dealing with the operations and policies of the Federal Reserve System.

GETTING THE FACTS

A prerequisite for reaching a wise decision is to have at hand all available data and other information relevant to the problem to be considered. Adequate information does not assure a wise decision but it eliminates guesswork. But facts in themselves are not enough. They must be analyzed and their significance interpreted in relation to the question at issue.

The need for data and other information in Federal Reserve decision-making is especially acute. Federal Reserve policymakers are continually facing such broad questions as whether credit and the money supply are expanding too slowly or too rapidly; whether total demand is deficient or excessive, or pretty well in balance with our total capacity to produce goods and services; and whether unemployment reflects too little total demand or changing wants and other structural adjustments. To arrive at some reasonably accurate answer to such questions requires comprehensive data on current business and financial developments such as incomes, the use of credit, wholesale and consumer prices, total output of goods and services, inventories, industrial production, construction, investment in business plant and equipment, employment and unemployment, consumer expenditures, business expenditures, and Government receipts and expenditures.

The need for comprehensive data on business and financial developments was recognized early in the history of the Federal Reserve System. To meet this need the Board of Governors and the Reserve Banks built up research departments and staffs of economists to collect, process, tabulate, and analyze a great variety of financial and business data.

Sources of information

The Federal Reserve collects directly certain financial data and other information, and uses a vast amount of data assembled from other sources. A large amount of data is collected regularly from member banks and other institutions to provide a continuing picture of significant financial developments. Special surveys and studies are often made to get additional information on some current problem or to obtain information requested by Congressional committees. Recent illustrations are the special studies of how small business is financed, the federal funds market and its uses, the Government securities market and its operation (in cooperation with the Treasury), and the effect of high interest rates on state and local government financing.

System officials are fully aware of the fact that regular reports and special surveys impose burdens on respondents. They try to limit requests to essential information for policymaking and for other purposes such as answering requests from Congress. But time devoted to providing information needed in making monetary policy decisions is time well spent; and Federal Reserve authorities appreciate the fine spirit of cooperation of the many respondents who help provide this information.

In addition to the data collected directly, the Federal Reserve has access to statistics collected by various Government departments and agencies, and by many private associations and institutions. Most of the data collected by the Federal Reserve System and the Government departments and agencies is published and hence is available to the public as well as to the agencies themselves. A perusal of such monthly publications as the *Federal Reserve Bulletin* (Board of Governors of the Federal Reserve System), the *Survey of Current Business* (U. S. Department of Commerce), *Economic Indicators* (Council of Economic Advisers), and the *Treasury Bulletin* (U. S. Treasury Department) will show the great variety of data available on various aspects of business and finance.

Despite the large amount of statistical information available, policymakers are more frequently confronted with the problem of inadequate rather than too much information. One of the greatest shortcomings of economic data is that they necessarily show conditions in the past. Policymakers must make decisions looking toward the future. The time lag before data are available varies rather widely. For some important types of data it is several months.

Because of the time lag and other reasons, policymakers need to supplement data with other types of information. One of the advantages of the organization of the Federal Reserve System is that it affords access to information from men engaged in a great variety of economic pursuits. Each of the 12 Reserve Banks has a board of directors of nine members, and branches of the Reserve Banks also have boards of directors. The 108 directors of the Reserve Banks, together with the directors of the branches, include men engaged in practically every type of economic activity. Discussions of business and financial developments at the meetings of the boards of directors of the Reserve Banks and their branches provide information that cannot be obtained from statistics alone. Reserve Bank directors make a valuable contribution to the policy-formulating process by bringing to the discussions the knowledge and points of view of men embracing a great variety of practical experience.

The Federal Reserve Act provides for a Federal Advisory Council, consisting of one representative from each Federal Reserve District. The representative of each district is selected annually by the board of directors of each Reserve Bank.

The Council serves in an advisory capacity. It meets at least four times a year in Washington, additional meetings being subject to the call of the Board. The views of the Council on monetary policy and other questions of importance to the System are thus made available to the Board of Governors for its consideration.

Analysis and Interpretation

A physician makes an examination and obtains certain data in order that he may diagnose the state of his patient's health. Analysis and interpretation of the data are essential steps in making the diagnosis.

Economic data reflect the state of our economy's health—unfortunately only with a time lag. The data must be diagnosed and interpreted, especially with respect to their significance for monetary policy. The Board and the Reserve Banks have staffs of economists and statisticians who are continually analyzing and interpreting economic data in order to determine the nature and significance of current developments. If unemployment is increasing, for example, it is of vital importance to try to find out why. Are the

unemployed concentrated in declining industries, or have many of them been temporarily displaced by a shift in demand, such as from aircraft to missiles? Diagnosis of the cause of an increase in unemployment or of some other significant economic development is all-important from the standpoint of policy formulation. A rise in unemployment caused by a deficiency in total demand arising from a restricted credit supply would definitely indicate an easier money policy. On the other hand, a rise in unemployment caused by a shift in demand or some other type of adjustment involving only particular industries, although of concern to System officials, is not a problem that can be solved by monetary policy.

Preparation for O.M.C. meeting

Preparation for a meeting of the Federal Open Market Committee affords a good illustration of how information is assembled for the use of the policymakers.

Procedure varies somewhat among the Reserve Banks but, in general, the principal steps in getting ready for a meeting are similar. The research department, utilizing available data, makes a detailed analysis of district business and financial trends. District developments are usually compared with national trends to determine whether there are significant differences. Thus the president has the facts—about both district and national economic conditions.

The president does not rely on data alone. Current business and financial trends, including monetary policy, are usually discussed at the meetings of the board of directors. Directors, as already indicated, have first-hand information on developments and problems in their special fields. The president is also likely to discuss business conditions and monetary policy with some of his senior officers and economists to get their views as to whether current policy continues to be appropriate.

The staff of the Board of Governors prepares a statement on recent national business and financial developments. This is a comprehensive review and analysis which is usually upwards of 30 double-spaced, typewritten pages in length. It covers a wide range of topics, such as total output of goods and services, industrial production, inventories, plant and equipment expenditures, commercial and residential construction, employment and unemployment, consumer expenditures for durables and nondurables, wholesale and consumer prices, consumer credit, bank credit, mortgage credit, Treasury financing, bank reserves, the money market, and selected international developments. A copy of this staff paper goes to the members of the Board of Governors and the presidents of the Reserve Banks before the meeting of the Open Market Committee. There are also frequent discussions among the Board of Governors and between the Board members and their staff.

The Manager of the Open Market Account prepares a weekly report of the operations of the Open Market Account together with an analysis of the factors affecting bank reserves and conditions in the money and Government securities markets. A supplemental report covering operations and conditions since the last meeting of the Committee is also made available to members of the Board and the presidents of the Reserve Banks before each meeting.

HOW DECISIONS ARE MADE

Actually, the formulation of monetary policy is a continuous process. It is the major responsibility of the Board of Governors and the presidents of the Reserve Banks. Monetary policy is

an important topic for discussion at many of the meetings of the Board of Governors. Special studies of various problems of monetary policy —such as use of the tools, current and prospective business and financial developments, and the effects of actions already taken—are always under way among the staffs of the Board and the Reserve Banks. Informal discussions relating to monetary policy occur daily among members of the Board and the presidents. In other words, members of the Board and the presidents "live with" the formulation of monetary policy.

It may be of interest to describe the more formal procedures followed in the meetings of the Federal Open Market Committee and the daily telephone meeting with the Manager of the Open Market Account.

Typical meeting of O.M.C.

The Federal Open Market Committee usually meets every three weeks in the board room of the Board of Governors' building in Washington. The seven members of the Board and the 12 presidents of the Reserve Banks sit around a long, oval table. The Chairman of the Board of Governors, who is chairman of the Committee, calls the meeting to order promptly at 10 a.m.

The first order of business is a report by the Manager of the Open Market Account on open market operations and money market conditions since the last meeting of the Committee. Following the Manager's report, there is an opportunity for questions and discussion.

Next there are brief analyses of the business, financial, and international economic situations by senior members of the Board's staff of economists. The Director of the Board's Division of Research and Statistics gives a talk of about 10 minutes dealing with the highlights of the current business situation. This is followed by an analysis of the financial situation by one of the Economic Advisers to the Board. Frequently, the Director of the Division of International Finance gives a brief review of significant international financial developments, particularly those relating to the United States' balance of international payments.

The chairman then conducts a "go around," calling on each member of the Board and each of the presidents. The vice chairman of the Committee (president of the Federal Reserve Bank of New York) leads off, devoting a part of his statement to conditions and recent developments in the money and capital markets. Each president reports briefly on business and financial conditions in his district, discusses other developments that he considers of significance, and then gives his views as to whether monetary policy continues to be appropriate. Board members usually emphasize certain aspects of the business and financial situation which they consider to be of crucial importance and then give their views on current monetary policy.

Following the go-around, the chairman gives his own views and states what he considers to be the consensus expressed around the table. Usually a clear majority is in favor of certain policies; if not, there is further discussion, and agreement is finally reached.

It should be pointed out here that a unanimous vote does not mean that there are no differences of opinion among the members of the Committee. A free and frank exchange of views, such as takes place at the meeting, often reveals differences of opinion as to what current policy should be. But the differences are frequently relatively minor and relate to degrees of restraint or ease. Divergences are usually not sufficient for dissenting members to vote formally in op-

position to the position represented by the consensus.

Daily telephone meeting

The Manager of the Open Market Account attends the meetings of the Federal Open Market Committee. Hearing the discussion leading up to the adoption of the directive for the conduct of open market operations for the next three weeks gives the Manager a clearer understanding of the Committee's intentions. The directive is necessarily in somewhat general terms. Quantitative indicators of restraint and ease are not sufficiently reliable so that the Committee's intentions can be achieved under changing conditions by setting specific quantitative targets. Neither is it possible to forecast accurately what conditions will be, especially in the rapidly changing money and credit markets.

A technique that helps maintain closer liaison between the Committee and the Manager is the daily telephone meeting at 11 a.m. This meeting includes a member of the Board of Governors or one of the Economic Advisers to the Board, one of the presidents currently serving on the Committee, and the Manager of the Open Market Account or one of his officers engaged directly in supervising operations of the trading desk. The meeting usually starts off with a summary of the current situation by the Manager of the Account or his representative, covering such factors as the availability of reserves, and the tone and conditions in the money and Government securities markets. Following this summary and a discussion of the situation, a decision is reached as to what action, if any, should be taken in the market that day.

In addition to the daily telephone meeting, members of the Board and the presidents are often in contact with the Manager regarding conditions in the market and open market operations. Occasionally, the chairman may arrange a telephone meeting of the full Committee to consider some more serious question which requires immediate decision.

CONCLUSIONS

To one accustomed to responsibility being centralized in one person, the decentralization of authority and the policymaking procedure of the Federal Reserve System may appear confusing and cumbersome. The form of organization is one in which a relatively large number participate directly in policymaking decisions. It is not so conducive to prompt actions and flexibility as when responsibility is centralized in one person. Then, too, group decisions usually represent compromises, as some critics have pointed out.

The policymaking procedure of the Federal Reserve has important offsetting advantages. It brings to bear on any question up for decision much more information than any individual could possibly possess. The procedure makes available to the policymakers regional conditions and problems as well as national, and penetrates all the way down to the grass roots, tapping the views and the experience of men actually engaged in a wide variety of economic activities. Group discussions among the policymakers bring out all angles of the problem being considered, and a decision emerges only after the implications have been thoroughly explored. Last, but not least, group decisions arrived at through a democratic process of frank and free discussion among informed and responsible men are much less likely than one-man decisions to result in colossal blunders. The importance of a system of checks and balances, in preference to responsibility being centered in

one person or one group, was recognized in the establishment of our democratic form of government with legislative, executive, and judiciary branches.

NEW PUBLICATION

THE SEASONAL SQUEEZE

"At this time of year," the banker explained, "things are always tight. Loan applications pile up faster than we can process them. We can't tell where our next deposit dollar is coming from."

This is a typical description of the seasonal problems faced by the typical banker. As spring gives way to summer, summer to fall, and fall to winter, the volume of business activity ebbs and swells. Reflecting these changing conditions in agriculture, industry, and commerce, bankers experience periodic ups and downs in credit demands and cash reserves.

Recently the Federal Reserve Bank of Philadelphia has completed a detailed study of the seasonal patterns involved in Third District banking. The study uncovers a two-way seasonal squeeze in the Third District—a seasonal expansion of loans roughly from May through September compounded by a simultaneous loss of reserve funds. The study explains the different types of loans involved in the seasonal credit expansion and the factors responsible for the contraction in reserves.

The objectives of the study are threefold: (1) to show the individual banker the seasonal forces at work on his bread and butter—on his loans and deposits; (2) to explain a simple method by which bankers can anticipate future seasonal requirements; (3) to illustrate the position of the Federal Reserve System with respect to the seasonal problems of both the individual banker and the banking system.

Copies of the study may be obtained by writing to the Bank and Public Relations Department, Federal Reserve Bank of Philadelphia, Philadelphia 1, Pennsylvania.

THE BUSINESS OUTLOOK—
From a Returning Vacationist

A few weeks at the seashore would seem to be a peculiar way to prepare yourself to write an article concerning the outlook for business. Of course, this preparation could be overcome by a few days of intensive study of all the facts and figures that were missed while fishing, swimming, and boating. But, somehow it seemed to the writer that he may have learned something at the shore away from the statistics—something he had better say before becoming immersed again in facts and figures.

First off, let me say that the "national mood" is changing. Now here is a big statement. Perhaps only an economist who hasn't conferred with any of his associates for a few weeks or so would make it. But I believe it to be true, even though the statement is made on the basis of pretty flimsy evidence, i.e., on-the-beach conversations.

Parenthetically, I might say that the beach is a peculiarly good place for conversation. For the men, at least, the only status symbol is the depth of their tan. Everybody tends to feel at one with the rest. Free expression is encouraged.

For some years now most of the vacationers to whom I talked seemed preoccupied with their own problems. Sending children to college, their health, and the re-runs on summer TV were discussed loud and long. Of course, the latest popular movies and novels also came in for some considerable discussion and every now and again a critical moment was devoted to inflation and communism, but mostly the talks were light and airy.

This year not so. Big issues were discussed—even argued. There was talk of foreign trade problems, the growing tendency for American manufacturers to put new facilities overseas, and the feeling some had that our prestige and influence were slowly waning throughout the world. Others talked of problems in education. They wondered how we might better permit knowledge to be brought to bear with greater efficiency on the major issues of our times, how we might better select and develop first-rate intellectual talent, and how we might more favorably project our philosophies on other peoples in the world. The political conventions sparked discussions concerning economic growth, interest rates, support for farm prices, our position with Russia, and our national purpose.

Suddenly, it seems, people are vitally interested in what is going on around them, in the bigger issues of our times. This is good. But momentarily, at least, it may be producing a mood of pessimism.

The first things that people tend to look for when they think of hard problems are easy answers. But easy answers to the big issues are not forthcoming. We can't just lower prices to sell more products in foreign countries, raise tariffs to protect our home market, order our colleges to develop more first-rate intellects, make the world believe it should like everything about the United States. So that for the moment our sudden awareness of the big issues is producing a feeling of discouragement.

The stock market reflects and then its be-

havior reinforces the more or less gloomy mood. Business conditions have been influenced by the market. The year to date has not proceeded the way most economists and businessmen thought it would—1960 has not come up to expectations. Spending by businessmen and consumers is not so buoyant when a feeling of discouragement is pervasive. Disappointment in business totals intensifies that discouraged feeling.

It is within this over-all mood that we try to see what's ahead for business. When I left for vacation most of the analysts to whom I talked felt the economy was proceeding through a normal business cycle. The pattern was similar to that which occurred in the 1953 through 1957 period—recession, growth, leveling, recession. All felt the economy was leveling at that time, and that the recession phase would begin manifesting itself in gross national product figures at the latest by mid-1961. When pressed for more precise timing most people said they thought the recession would strike just after the turn of the year. The recession, it was said, would be a modest one—not so severe as in 1957-1958. The consensus was that the relative shallowness of the anticipated recession could be predicted from the modest proportions of the boom that would have preceded it.

Upon returning, a few changes are perceptible but mostly things are the same. A few now say that the recession has already begun. A small minority expect it to show itself clearly in third-quarter statistics. There is also more of a tendency to prophesy a recession of about the same proportion and duration as in 1957-1958.

Perhaps it's only because of my just-completed vacation, but I have a certain reluctance to accept the consensus. It strikes me as just too easy to liken what is happening and will happen to what happened during the last cycle. Clearly the recovery that has come about is not like that which took place in 1955 and 1956. At that time it was fairly clear that the seeds of the next recession were being sown in the excesses of the boom attendant to the recovery. In 1958 and 1959, however, it would be difficult to describe the business environment as having been "boomy." The rate of recovery was stepped up as the economy prepared for the steel strike, to be sure, but if that was a "boom" we had our offsetting "bust" during and just following the strike. For the most part, since the low point in 1958, upward movement in the economy has seemed somewhat restrained.

What many economists are thinking now, if not actually saying, is that our economy has moved into a new secular phase. The earlier post-war period—where recoveries were long and strong and recessions shallow and brief—is over. The new secular phase will see recoveries of somewhat less strength and staying power, and somewhat deeper and longer recessions.

Again, I have a certain reluctance to accept this notion. Recessions are caused, they don't just happen. No one has adequately explained what is causing the recession we are to have. It's being predicted largely because this is what happened before. Last time the cycle went: recession, recovery, level, recession. But it doesn't have to repeat itself. This time, after level, why can't we go up? We can! But upturns must have causes, too.

From where will the additional strength come? Probably not from business spending. A surge in inventory spending would be unwarranted—even dangerous—without a clear signal that total demand is rising well beyond the present ceiling. Any sizable increase in spending by business for plant and equipment is virtually

ruled out by the current overhang of excess capacity. But both of these areas of spending should remain firm to slightly higher, if demand from consumers and governments bounces higher.

How about consumers? Consumer spending has not come up to the expectations of the consensus of forecasters for the past few years, despite some flurries that brought about excited claims to the contrary. Some people, at the turn of the year, observing this consumer lethargy said the time was ripe in the first half of 1960 for a really big buying spree. It didn't come. Will it come in the latter part of 1960 and on into 1961? Probably not. The consumer is a different sort from his earlier post-war self. He's older, better stocked with consumer goods, and more debt-ridden, among other things. In general his spending isn't so responsive as before, whether to increases in income, more readily available credit, or to more attractive goods.

Although it is unlikely that consumers will go on a buying spree, it is possible that their spending will rise rather strongly from current levels. Housing, automobiles, and appliances are each areas of potential stimulus for the economy. Even modest increases in spending on these goods would virtually rule out the "inevitable" recession that almost everyone expects.

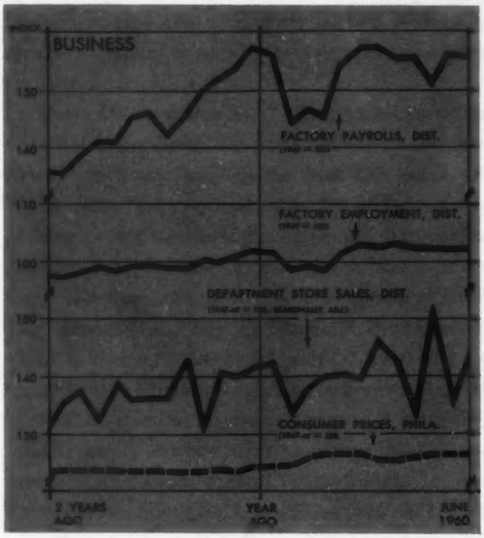
Government spending will quite likely rise for the next year or so. The rise that is expected at this time is a modest one. State and local government spending has been pressing higher for some time now through recessions, booms, and periods of leveling. It doesn't always have to hold to that pace, but it probably will for the next year or so. Federal Government spending is expected to rise only very modestly. Of course, world events and other matters could greatly change that prophecy.

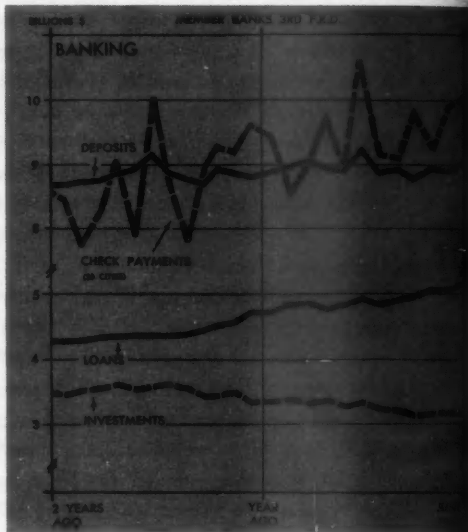
Thus, if the future doesn't look overly strong, neither does it appear terribly weak. It is not at all unlikely that the economy which was "leveling"—moving upward at a sluggish pace—when I left for vacation, leveling when I returned, will be leveling at the turn of the year. Possibly, too, a recession by mid-1961 still will be predicted by the consensus of forecasters. But I can't help feeling that what I learned on the beach is heartening. If the national mood is changing and people are coming to take more interest in the big issues that surround them, and if discouragement at this moment arises out of their inability to find easy answers to these hard problems, then soon more realistic solutions will manifest themselves. As this happens our society will get on with the jobs that must be done. When we do, the spark that has been missing will return, and then our cycle could read: recession, recovery, level, *up*.

NEW PUBLICATION

Industrial Production—1959 Revision (225 pages) is now available from the Board of Governors of the Federal Reserve System, Washington 25, D.C. It provides descriptive material and statistical tables on the revision of the industrial production index and its method of computation. Analytical aspects of the revised index relating to industrial classification, market groupings, output-per-manhour adjustments, and seasonal fluctuations and weighting are presented. The price is $1 per copy up to 10 copies, and 85c each for 10 or more copies in a single shipment.

FOR THE RECORD...





SUMMARY	Third Federal Reserve District — Per cent change — June 1960 from mo. ago	Third Federal Reserve District — June 1960 from year ago	Third Federal Reserve District — 6 mos. 1960 from year ago	United States — Per cent change — June 1960 from mo. ago	United States — June 1960 from year ago	United States — 6 mos. 1960 from year ago
OUTPUT						
Manufacturing production	0	−3	0	−1	−1	+4
Construction contracts	+8	−3	−8	+4	−5	−7
Coal mining	−7	−12	−3	−5	−7	−1
EMPLOYMENT AND INCOME						
Factory employment (Total)	0	0	+2	0	0	+3
Factory wage income	0	−1	+3	....	....	....
TRADE*						
Department store sales	+6	0	+3	+3	0	+2
Department store stocks	+2	+1	....	+2	+6	....
BANKING (All member banks)						
Deposits	+1	+3	+1	+2	+1	0
Loans	+2	+10	+11	+1	+10	+11
Investments	−2	−6	−8	−1	−11	−13
U.S. Govt. securities	−2	−7	−11	−2	−13	−15
Other	−1	−2	−2	0	−5	−4
Check payments	+1†	+5†	+7†	+8	+10	+7
PRICES						
Wholesale	....	....	....	0	0	0
Consumer	0‡	+2‡	+2‡	0	+2	+2

*Adjusted for seasonal variation. †20 Cities ‡Philadelphia

LOCAL CHANGES	Factory* Employment — Per cent change June 1960 from mo. ago	Factory* Employment — year ago	Factory* Payrolls — Per cent change June 1960 from mo. ago	Factory* Payrolls — year ago	Department Store† Sales — Per cent change June 1960 from mo. ago	Department Store† Sales — year ago	Department Store† Stocks — Per cent change June 1960 from mo. ago	Department Store† Stocks — year ago	Check Payments — Per cent change June 1960 from mo. ago	Check Payments — year ago
Lehigh Valley	0	+3	−1	+5	....	....	....	....	+13	+13
Harrisburg	−1	−3	+3	−2	....	....	....	....	+8	+3
Lancaster	+1	−1	+1	−1	+5	+6	+4	+6	0	+2
Philadelphia	0	+1	0	+2	+4	−2	0	0	−2	+4
Reading	0	+1	−2	−1	+10	+2	0	+2	+4	+10
Scranton	+1	−3	+3	+2	+7	+1	−2	−3	+13	+9
Trenton	0	−2	−1	−3	−5	0	+2	+4	−4	+2
Wilkes-Barre	0	0	−3	+1	+6	−4	−2	+2	+7	+6
Wilmington	+1	−1	+3	+2	+10	+5	+5	+3	+25	+13
York	+1	0	−1	−4	+8	+1	0	0	+2	+2

*Not restricted to corporate limits of cities but covers areas of one or more counties.
†Adjusted for seasonal variation.